

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



PROCESSING STRAWBERRY ADVISORY BOARD OF CALIFORNIA

AUDIT REPORT #10-063

PROCESSING STRAWBERRY  
ADVISORY BOARD OF CALIFORNIA

AUDIT REPORT

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AUDIT STAFF

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Ron Shackelford, CPA  
Shakil Anwar, CPA  
Evelyn Yee, CPA  
Michelle Chan

Audit Chief  
Assistant Audit Chief  
Audit Supervisor  
Auditor

AUDIT REPORT NUMBER

10-063

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Mr. Robert Maxie, Branch Chief  
Marketing Services  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of Processing Strawberry Advisory Board of California (Marketing Board). The objective of this audit was to determine whether certain activities and expenditures incurred by the Marketing Board comply with the law and are within the Board's authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Marketing Board's financial records.

The audit scope was limited as it related to certain expenditures by the Marketing Branch. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

Furthermore, our audit scope was limited to January 1, 2007 through December 31, 2009. Although the scope was limited to these years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing the Marketing Board's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and the Processing Strawberry Advisory Board of California and should not be used for any other purpose.

A handwritten signature in black ink, appearing to read "Ron Shackelford". The signature is fluid and cursive, with the first name "Ron" being more prominent.

Ron Shackelford, CPA  
Chief, Audit Office  
(916) 322-3300

### EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the Processing Strawberry Advisory Board of California (Marketing Board) to determine whether certain activities and expenditures incurred comply with the law and are within the Board's authority. In order to accomplish this, our primary focus was the Marketing Board's expenses and compliance with various rules and regulations. The following administrative weaknesses were noted:

- The Marketing Board has not established a written policy regarding alcohol purchases, as required by the Marketing Branch's Agricultural Marketing Program Policy Manual, effective October 1, 2009. The Marketing Board paid a total of \$12,402 for alcohol during the annual meetings.
- The Marketing Board provides a company vehicle to two employees and uses the Internal Revenue Service (IRS) commuting rule for the valuation of the fringe benefit. It does not appear that the Marketing Board met all of the IRS requirements, such as establishing a written policy, to use this method of valuation.

### KEY RECOMMENDATIONS

1. *The Marketing Board should be cautioned that the purchase of alcohol may not appear to be in the best interest of the State or further the mission of the Marketing Board. The Marketing Branch's Agricultural Marketing Program Policy Manual, effective October 1, 2009, requires each Marketing Board to establish its own alcohol policy. Therefore, going forward, the Marketing Board should establish its own written alcohol policy, which addresses items such as the oversight of the expense and reasonable limits on the price per item allowed.*
2. *The Marketing Board should ensure it complies with all IRS requirements when using the commuting rule as a method of valuating the fringe benefit for the use of the company vehicle.*

## REPORTABLE FINDINGS

### LACK OF WRITTEN ALCOHOL POLICY

As of the final fieldwork date, the Processing Strawberry Advisory Board of California (Marketing Board) has not established a written policy regarding alcohol purchases. During our review of the expenses from January 1, 2007 through December 31, 2009, the Audit Office noted the Marketing Board paid for alcohol. Without a written policy, our office is unable to determine whether these expenses were necessary or in the best interest of the State. Additionally, during the audit period, the Marketing Branch's new policy regarding alcohol purchases took effect on October 1, 2009. According to the Marketing Branch's Agricultural Marketing Program Policy Manual, each marketing board shall establish its own written policy regarding alcohol purchases.

Alcohol purchases, totaling \$12,402, occurred during the annual meetings held in November at a resort. The Marketing Board hosted two dinner receptions at each annual meeting. Alcohol expenses of \$5,305 in 2007; \$3,607 in 2008; and \$3,490 in 2009 were incurred during these dinners. Attendees of these dinners include board members, assessment payers, and industry members. According to management, the Marketing Board receives donations specifically to offset the total cost of the annual meeting. The total cost for the annual meeting, which includes the two dinner receptions, a continental breakfast, and meeting room and equipment rentals, totaled \$23,093 in 2007; \$18,726 in 2008; and \$19,282 in 2009. The total donations each year were approximately 37% of the total cost of that year's annual meeting. Since the Marketing Board did not have the required written policy addressing oversight and accounting of alcohol expenses and reasonable limits on the price per item, the audit office is unable to determine whether the expense seems reasonable.

#### *Recommendation*

- 1. The Marketing Board should be cautioned that the purchase of alcohol may not appear to be in the best interest of the State or further the mission of the Marketing Board. The Marketing Branch's Agricultural Marketing Program Policy Manual, effective October 1, 2009, requires each Marketing Board to establish its own alcohol policy. Therefore, going forward, the Marketing Board should establish its own written alcohol policy, which addresses items such as the oversight of the expense and reasonable limits on the price per item allowed.*

### PERSONAL USE OF COMPANY VEHICLES

The Marketing Board did not meet all of the necessary Internal Revenue Service (IRS) requirements for determining the value of a fringe benefit. The Marketing Board provides a company vehicle to two of its employees and uses the IRS commuting rule for the valuation of this fringe benefit. Based on the IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits, the commuting rule can be used if all of the requirements are met. These requirements include, but are not limited to, establishing a written policy which does not



allow the employee to use the vehicle for personal purposes other than for commuting or de minimis personal use. Upon review of the Marketing Board's policy manual and discussions with management, the required written policy has not been established. However, a draft of a policy is currently waiting to be reviewed and approved by the Board of Directors.

*Recommendation*

2. *The Marketing Board should ensure it complies with all IRS requirements when using the commuting rule as a method of valuating the fringe benefit for the use of the company vehicle.*

**PROCESSING STRAWBERRY ADVISORY BOARD OF CALIFORNIA'S  
RESPONSE**

# PROCESSING STRAWBERRY ADVISORY BOARD OF CALIFORNIA

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741 EAST LAKE AVENUE : Mail to: P.O.BOX 929 WATSONVILLE, CALIFORNIA 95077-0929  
(831) 724-5454 (831) 724-5198 FAX (831) 724-0295  
*Under the Authority of the Secretary of Food & Agriculture, State of California*

March 30, 2010

Mr. Ron Shackelford, CPA  
State of California  
Department of Food & Agriculture  
2014 Capitol Ave., Suite 107  
Sacramento, CA 95811

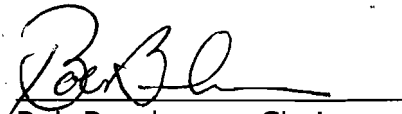
The CDFA Audit Office had two key recommendations for the PSAB; the need for a written alcohol policy and a written policy for valuating the fringe benefit for a company vehicle.

The PSAB at its March 25, 2010 Board Meeting approved an updated Policy Manual. PSAB added an alcohol policy (page 9), and a written policy for valuating the fringe benefit of a company vehicle for IRS (page 18).

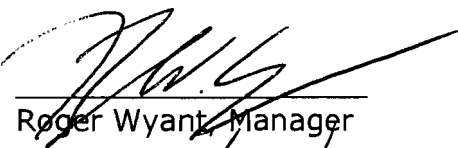
The PSAB has complied with the recommendations of the audit, and provided copies of the updated manual.

Sincerely,

Processing Strawberry Advisory  
Board of California

  
Bob Barnhouse, Chairman

Date: 4-9-2010

  
Roger Wyant, Manager  
Date: 3/30/10

### **C DFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the Processing Strawberry Advisory Board of California, for its review and response. We reviewed the response and it addresses the findings in this report.

### **DISPOSITION OF AUDIT RESULTS**

The findings in this report are based on fieldwork my staff performed between January 11, 2010 and January 15, 2010. My staff met with management on January 14, 2010 for a preliminary exit to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Marketing Board for their review and action if necessary. However, this report is public document and its distribution is not restricted.

## REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman, Processing Strawberry Advisory Board of California
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office